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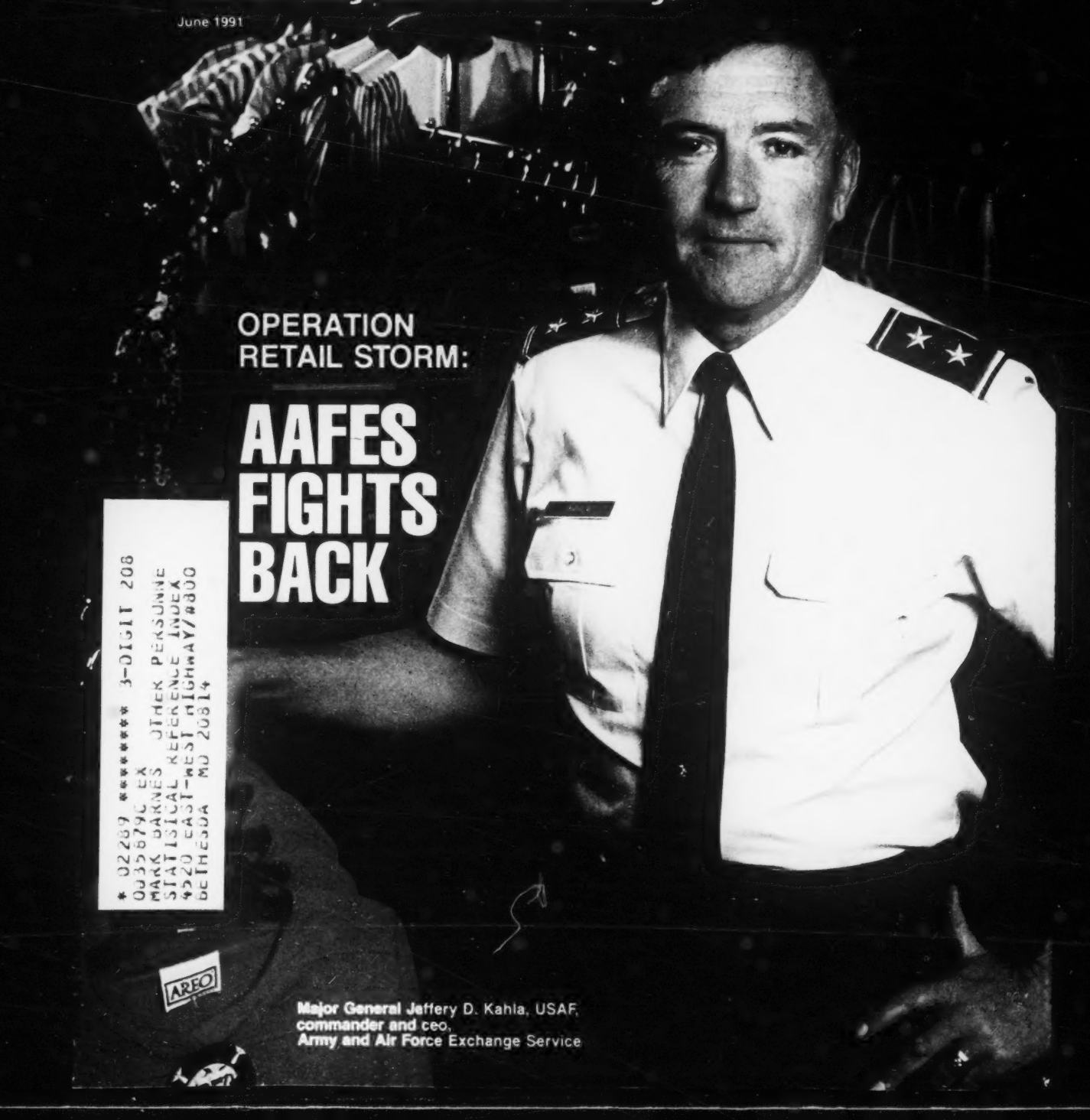
Chain Store Age EXECUTIVE

with Shopping Center Age

The newsmagazine for retail manager

June 1991



OPERATION RETAIL STORM:

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Major General Jeffery D. Kahla, USAF, commander and ceo, Army and Air Force Exchange Service

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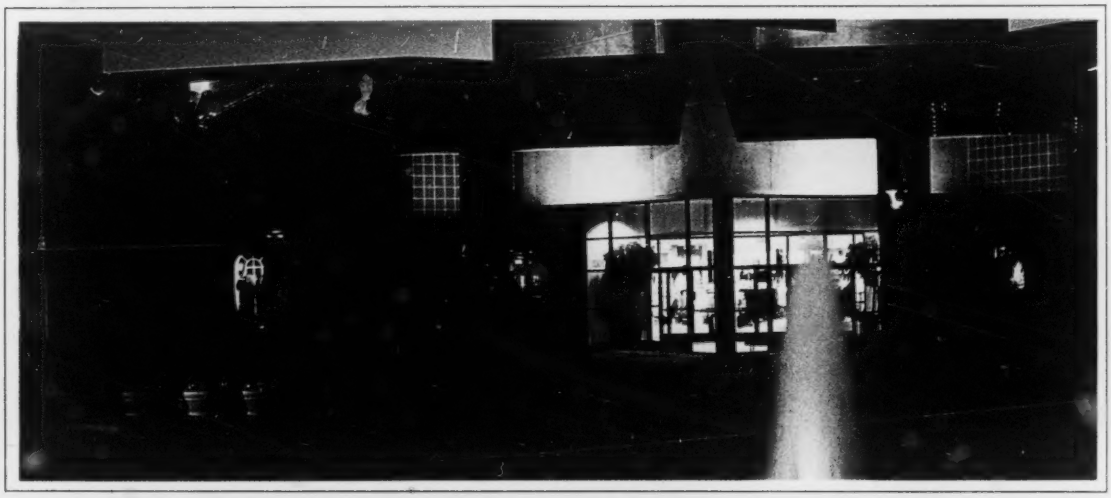

A COST-EFFECTIVE ELEGANT LOOK

The Harris Co. of San Bernardino, Calif., found it is possible to maintain a high level of design on a conservative budget. The regional department store company's new unit in Palmdale, Calif., has an elegant and updated look that is as cost-effective as it is memorable. Design costs ran $30 to $40 per square foot. 56

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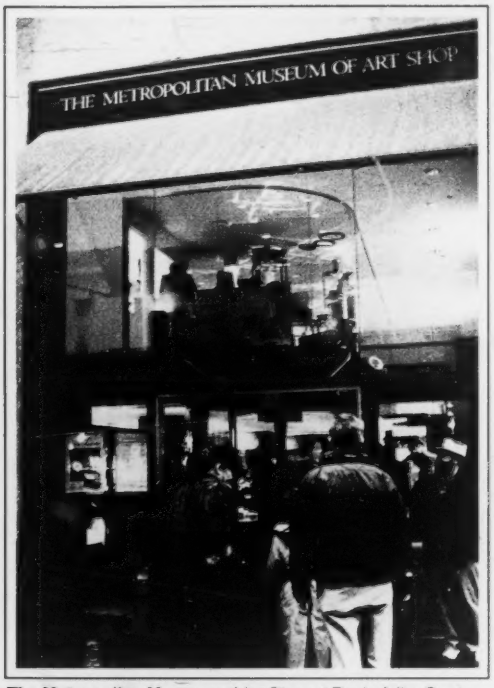


***The Metropolitan Museum** of Art Shop at Rockefeller Center in New York City is the Met's largest satellite store.*

sures. They also offer books, sculpture, jewelry, crystal, silver, prints, posters, greeting cards, and souvenir merchandise.

The Atrium 9000 system installed at the Rockefeller Center store consists of a controller terminal with eight intelligent primary terminals and five satellites. The terminals are configured with a 9-in. monochrome CRT display, which supports viewing of menus, operator prompts, error messages and help screens.

The Atrium's interactive help function and user-friendly interface have made training of sales associates quicker and easier than is possible with a system that is not PC-based, says Tom Dougherty, the Met's controller of publications and merchandise.

Sales associates are now keying in sku numbers to enter sales, but handheld laser scanners are expected to be added to the terminals soon, Dougherty says. He calls the Atrium 9000 "a true system solution for the specialty store retailer."

In selecting the Atrium 9000, he says, one of the Met's primary goals was to get the satellite shops online with polling capabilities.

"In stores without the Atrium, we are working with a multiplex online direct line hookup, which is costly," Dougherty says. "We were impressed with the polling capabilities that Fujitsu was able to demonstrate."

Dougherty says he also appreciates the flexibility of the Atrium's PC base, which makes the system easily programmable and customizable. "With other systems, we'd have to hire a programmer to just change a simple thing like credit card configurations."

The programmability of the Atrium 9000 allows the museum's data processing staff to accommodate store needs by custom-defining transaction sets, tax tables, fees and menus.

Steve Bergman, the Met's chief information officer, points out that the intelligence of the PC-based system means there is tremendous flexiblity in what can be done with information.

"In our case, we're looking at using the Atrium for price lookup, sales reports, and sophisticated customer service features like special ordering. We're already using the system to download inventory data to our IBM 4381 mainframe every night."

He notes that the multitasking capabilities of the Atrium's OS/2 operating system enable the terminals to transmit data to headquarters even while sales are still being rung up.

"The Atrium's real strength is its software," Bergman says, "and most of that is supplied by Fujitsu."

The Met uses two of Fujitsu's host software packages: On-line host communications and host sales audit. The communications software enables the museum's host computer to communicate with remote POS store system. The sales audit software provides a complete on-line system for auditing retail POS data.

"It simplifies our efforts to have to deal with one vendor for all our POS requirements, both in hardware and in software," Dougherty says.

He concedes that sophistication in in-store systems is not usually associated with non-profit organizations. "It isn't always easy to push for technological sophistication here," he says. "In some areas, I feel like we're five years behind. But we're making big strides."

Bergman, who joined the Met two years ago after working in the corporate world for 22 years, says he believes the museum's technological sophistication is strong in most areas, and that improvements in other areas will come quickly.

"I've seen big improvements in the MIS environment here in a lot of areas, not just in the retail stores. There have been significant data processing upgrades in human resources, payroll processing and fund raising. ■

Metropolitan Museum of Art Shops
New York

Head of Merchandising: Brad Kelleher
Sales: $75 million (1990 estimated)
Type of stores: Art objects, gifts
Number and size of stores: Ten, averaging 2,500 sq. ft. to 3,000 sq. ft.
Areas of operation: New York, New Jersey, Connecticut, Ohio, California

PLANOGRAM REPLACEMENT

CO-OP SWAPS SPACEMAN FOR PEGMAN

The space management software industry is headed for a new jolt of competition, if the decision of one hardware store cooperative is any indication.

Coast to Coast Stores, Denver, a wholly-owned subsidiary of Butler, Pa.-based Servistar, recently converted its PC-based space management software system from Spaceman to an upstart competitor called Pegman. Coast to Coast had been using Spaceman to create planograms for its 839 member stores' gondola, peg and shelf sets since 1987.

The purpose of space management software is to use sales data, along with product measurements, to allo-

cate items on a planogram as profitably as possible—without ignoring aesthetics.

Coast to Coast's switch to Pegman is significant because Spaceman, owned by Logistics Data Systems, Irving, Texas, has long been to space management what Lotus 1-2-3 is to spreadsheets. Spaceman claims some 49% of the installed base of retailers in the United States who use space management, more than twice the share claimed by its nearest competitor, Apollo, marketed by Information Resources, Chicago.

***Pegman is fast** increasing its market share.*

Pegman, introduced only three years ago by Cambridge, Mass.-based MarketWare, is closing in on both systems fast, with a market share that now stands at 13%.

A key reason may well be cost: Compared with spreadsheets, space management software isn't cheap. Because of the complexity of the on-screen manipulations, an investment of $100,000 or more is not unusual.

On the other hand, with Pegman, Coast to Coast was able to build a complete system for about $60,000, says Mark Anderberg, the co-op's manager of store displays.

The decision to move to Pegman came after Coast to Coast resolved to implement video imaging, a relatively new component of space management in which a photograph-like replica of a shelf set is created using a database of digitized images.

Without video imaging, Coast to Coast was able to use Spaceman only to create schematic blueprints of the displays, Anderberg says. Early on, it became apparent that the co-op's members found the schematics confusing, and merchandising suffered.

"Consequently, we stopped sending the schematics to the members," Anderberg says. "We continued creating them, but then used them to physically set up and then photograph displays.

"Since we do more than 300 planograms each year, however, this required a substantial amount of time and effort," he says. "In fact, it was the very sort of effort that we thought we had gotten into space management to avoid."

Since video imaging is by far the most expensive component of a space management system, Coast to Coast decided it was prudent to re-evaluate its needs and thoroughly research all available space management systems instead of automatically staying with Spaceman. When Anderberg came across Pegman, he liked what he saw.

"In the first place," he says, "it was apparent that we could convert to Pegman and have video imaging for less than it would have cost to purchase just the video imaging module from Spaceman. That made the cost issue pretty hard to ignore."

> Coast to Coast has approximately 30,000 video images in storage

But there were other factors. "Pegman is the only space management software that was created initially for the hardware store industry, not the supermarket industry." Hardware stores, Anderberg notes, have a broader range of products than supermarkets, and fewer mass facings.

"Pegman built its reputation on excelling at the kind of peg displays that are more common in hardware stores than in supermarkets," he says. "And its database of hardware products is the largest I've seen."

Another factor was flexibility. "With Pegman, I can play what-if scenarios on screen any way I choose, without having to hire a programmer to change parameters."

Not everyone at Coast to Coast was enamored with Pegman, Anderberg concedes. Some people, pointing out the high failure rate of new businesses, were squeamish about dealing with a company as new as MarketWare. They noted that Spaceman and Apollo had much longer track records, having introduced PC-based systems as far back as the early '80s.

"My answer was that even if MarketWare were to fold the day after we bought their system, it wouldn't matter. Their system is designed to be flexible enough so that we could work with it indefinitely."

Others worried that the transfer to Pegman would be accompanied by the long and cumbersome task of transferring data from one protocol to another. "Actually, that turned out to be no big deal," Anderberg says. "Marketware had conversion software available to convert Spaceman files to Pegman files."

Coast to Coast is running Pegman on two Compaq 386-based PCs. The basic software runs on 2MB of RAM. Even more memory-intensive are the video images, each of which averages 50,000 bytes.

The images are exact replications of their respective products, and offer the merchandiser true WYSIWYG (What You See Is What You Get) capabilities, Anderberg says.

To take advantage of video imaging, Coast to Coast includes a peripheral optical mass storage device, similar to CD-ROM, that works with platters that are 6-in.-by-8-in. in size, and can store up to 600MB. Each platter costs $250. The mass storage device costs about $4,000.

"The costs have really been driven way down from what they were years ago," Anderberg says.

"When we first looked at video imaging, we could not go out and buy enough storage at a decent price to make it acceptable."

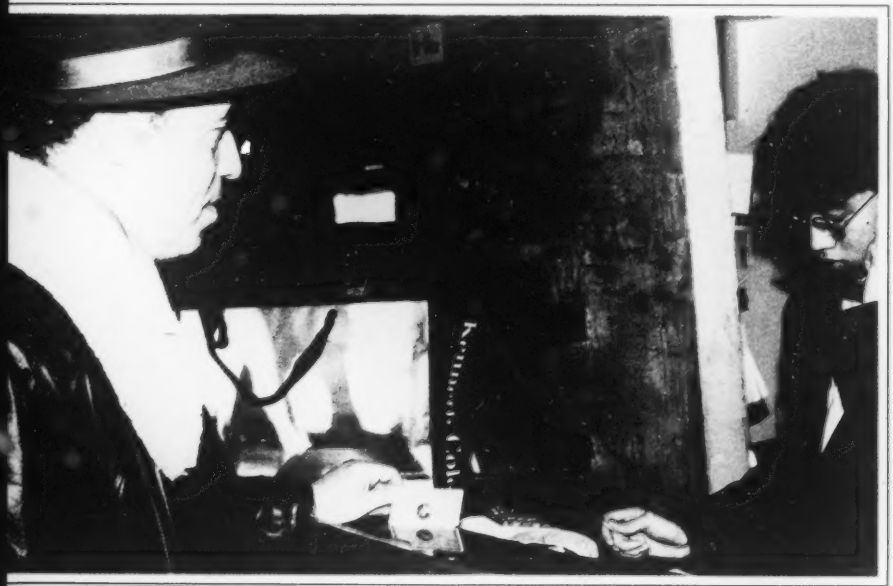
Coast to Coast has approximately 30,000 video images in storage, one for every sku, Anderberg says. "That sounds like a lot, but actually it represents only the so-called core goods—the minimum amount of product that a 5,500 sq. ft. prototype store needs to have."

Problems with video imaging arise only when goods aren't properly measured. "As with anything, it's a case of Garbage In, Garbage Out," Anderberg says. ■

CONSUMERS CUT BACK ON CREDIT CARD USE

SHOPPERS PUT CARDS ON HOLD IN ORDER TO HELP REDUCE DEBT LEVELS

Bernice and Leon Singer (not their real names) decided to bite the bullet when they learned that Leon's company was planning a cutback in its workforce: they dropped a department store (Macy's) and a bank credit card (Visa) into their safety deposit box. Even though Bernice was still working, they vowed not to retrieve them until they were sure of their future.



***Use of third-party cards** is rising among consumers who are cutting back on store credit card use.*

The Singers seem to be part of a general trend among consumers that is having an effect on retailing. According to a recent study by Brittain Associates Inc., an Atlanta-based financial services consulting firm, 21% of credit card owning households nationwide claim they have recently eliminated, or soon will eliminate, one or more of their credit cards in order to reduce their debt level.

"The outcome could mean a reduction of several billion dollars in credit card outstanding debt," according to Bruce Brittain, who heads the firm bearing his name. "The interest on this debt is one of the cornerstones of credit card issuers' profit."

This threat to cut up credit cards in order to reduce spending and control debt is given weight by two additional study findings, he said. First, 30% of these households spent less during the 1990 holidays, compared with the 1989 holiday season; second, 51% of these households used their credit cards less this year than last.

"If only one-half of the credit card owners who say they will cut up cards actually do it," Brittain says, "and, among those who do, the reduction of debt amounts to only one-third of their credit card debt, that is still $4.6 billion in outstandings. Even with new credit card households figured in the equation, the net impact on the industry will likely be negative in the first two quarters of 1991."

Brittain isn't sure how the cutting back on the use of credit cards will affect retailers. "It doesn't mean they [consumers] will start spending less," he says. "But they will start spending less on that particular card. If they don't change their purchasing behavior, there won't be much of an impact on retailers. It will impact more on the credit card issuers."

J. C. Penney, which accepts Visa, MasterCard and American Express credit cards in addition to its own, has noticed in the last several months a cutback in the use of its own Penney card, according to Duncan Muir, a spokesman for the retail chain.

"It's the first time we've noticed any decrease in the use of credit cards, which is—in a way— a favorable sign that people are paying off debt," Muir added.

The bulk of Penney's credit business is through its own credit cards. Last year, American Express, Visa and MasterCard accounted for $1.8 billion in sales, or 11.2% of total sales. Penney's own card accounted for $8.4 billion, or 51.8% of sales. A total of 63% of Penney's sales was on credit.

Each year, the third-party cards have shown a gradual increase in business at Penney.

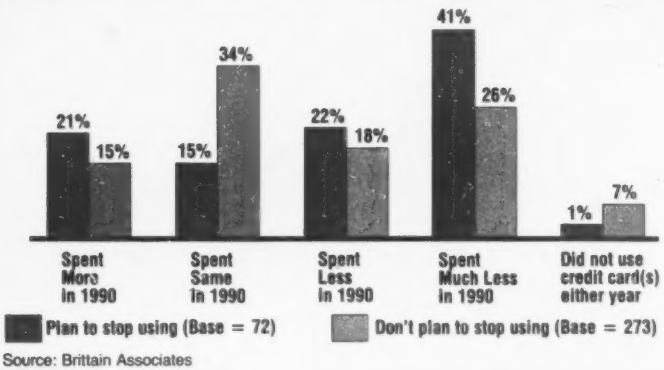
The same sentiment was expressed at Dayton Hudson for its department store division. The credit business is as strong as it has been in the last couple of years, according to Jim Dirlam, vp of credit services for the department store division. "We have noticed, however, that there is a slightly lower percentage of people using our cards and more people using third-party cards." The department store chain accepts Visa, MasterCard, American Express and Discover.

Huge market: The credit card universe is gigantic. In the United States, Visa had 135.6 million cards issued in 1990, accounting for $158.1 billion in volume, an increase of 17.9% over 1989. MasterCard has 90 million cards, accounting for $93 billion in volume in 1990, a 12% increase over 1989.

Visa says that in the United States, it commands 50% of the more than $250 billion in transactions made annually with general-purpose credit cards. However, all these cards combined represent only 10.5% of total U.S. consumer payments of $3.5 billion. The rest is cash and checks.

A more recent entry into the consumer credit card business is AT&T. It's a partner with Universal Bank of Columbus, Ga., which is a wholly-owned subsidiary of Synovus Financial Corp. According to Bruce Reid, executive director of media relations, "We market the AT&T Universal

1989 and 1990 Holiday Spending Compared By Those Who Plan To Discard Credit Card and Those Who Do Not



Source: Brittain Associates

card and Universal Bank is the issuer of the card."

After only one year on the market, AT&T—as of April 22—had opened 5.4 million accounts with its Universal credit cards, Reid says. It had 9.2 million cards issued, based on an average of 1.7 cards per account.

"The percentage of Universal households paying their entire balance is far higher than industry norms," says Bruce Brittain. He had no figures, but industry sources say the rate of paying up the entire balance monthly ranges between 30% and 35% of the outstanding debt.

AT&T introduced the Universal card in March 1990 with the promise that there would never be an annual fee for charter members who used their cards at least once a year. After a year, the no-fee offer was withdrawn along with the offer of a 10% discount on long-distance calls charged on the card. New applicants are faced with a $20 annual for a Visa or MasterCard and $40 for gold versions.

New incentives: As the economy continues in a slump and competition continues to increase by the introduction of more and more credit cards, the major players offer new incentives to attract consumers:

- Chemical Bank Delaware introduced a six-month promotion ending in October with a top prize of $25,000. Users must have an exact match between their monthly balance and a monthly match number.
- Also starting in May, Chemical Bank switched to a variable-rate credit card program that effectively lowers the interest rates on its cards.
- Citibank also said it would guarantee that consumers who shop with its card pay the lowest available price for their goods (*Chain Store Age Executive*, May 1991).

Under Chemical Bank's variable rate program, according to Kenneth Herz, vp and spokesman for Chemical Bank merchant services, the interest rate the bank charges on unpaid credit card balances will be linked to the prime rate. If the prime rate drops, the interest rate on Chemical's Visa and MasterCards will also drop. If, however, the prime rate increases, so will the interest rates on the bank's credit cards.

The prime rate was dropped by most major banks from 9% to 8½% early in May. If it holds, this would be reflected in the quarter beginning July 1, according to Herz, resulting in a 50 basis point reduction. Thus, it will be at 16% for its Chem-Plus and Gold Card customers and 18.4% for others.

For new AT&T Universal card members, the equation is prime plus 9.9%. For charter members, after a 25-day grace period, it dropped 1%. Their formula is now prime plus 8.9%.

Last month, before the banks lowered their prime rate, American Express ran full-page newspaper ads asking: "Why pay Visa or MasterCard over 19% a year? When you have a smarter option at 16.25%." ■

—Stanley H. Slom

VISA AND TARGET 'GET REVVED' FOR NATIONAL SWEEPSTAKES

In addition to promotions dedicated to enticing consumers to use their credit cards, bank card issuers sometimes aim their efforts to getting retailers to accept the non-retailer cards.

"We have been very active jointly with MasterCard in working with MasterCard and banks to sign up department stores," says David R. Brancoli,, spokesman for Visa International. "At one point in the department store area, it was not as high as we would have liked it. Now it is." He pointed out that Visa has a relatively new merchants relations division.

In stepping up its support of retail merchants, for instance, Visa U.S.A. will tie into one of Target Stores' largest promotions of the year: "Get Revved."

Target, a Minneapolis-based discount chain of 420 stores in 32 states and a division of Dayton Hudson, introduced the promotion with a national instant win game, "Grand Prix," featuring Visa as a major partner. Cardholders receive an extra chance via an extra game card to win prizes ranging from a new car to $20 in Visa Travellers Cheques every time they use Visa at any of Target's stores between May 12 and June 8.

The tie-in is the latest in a series of promotions by Visa in the retail arena, according to Brancoli. Last year's promotions included Visa's "Our Treat" sweepstakes which gave cardholders the chance to win what they purchased and helped spur a 16% increase in Visa sales in the fourth quarter of 1990.

The "Grand Prix" sweepstakes was designed by Target to support its sponsorship of its CART Racing Team. The promotion gives customers a chance to win a variety of prizes via an instant win scratch-off game card, including 10 Dodge Stealths, which was the Indy 500 pace car this year.

"We are pleased to have Visa join us in this promotion which we believe will be one of our most successful ever," says John Pellegrene, Target's senior vp of marketing.

COMMERCE DEPT. HINTS SLUMP'S END

BUT MOST TOP CHAINS REPORT DISMAL RESULTS

People who predict that the economy is ready to revive and others who believe that the recession is still slowing up can both find support from the major reports of retail sales results in April.

The Commerce Department revised its figures for March to show an increase of 0.4% instead of an 0.8% drop, and said sales in April held this gain.

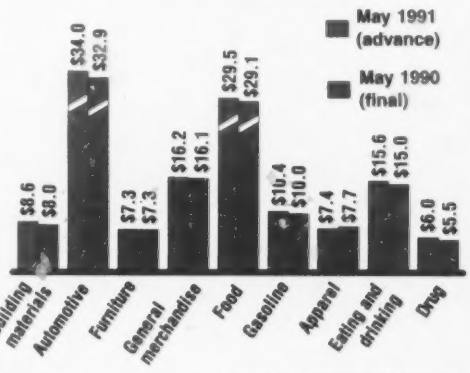
On the other hand, most of the nation's largest retail chains reported flat or lower same-store sales, and lackluster improvements in overall sales.

As usual, the striking exception was Wal-Mart, which saw its same-store sales rise 11% for the month, and posted a whopping 37% gain in overall sales. Wal-Mart, which edged past Kmart and Sears to become the nation's number one retailer in January, is now firmly entrenched at the top of the pack.

Specialty chains such as The Gap, The Limited and Neiman-Marcus Group, which had strong sales gains last year, showed signs of weakness in April, all posting same-store sales declines.

APRIL SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	April '91 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$3,259,000	+37.0	+11.0	$9,281,000	+37.0	+11.0
Kmart	2,526,604	+ 4.6	+ 0.7	7,644,081	+ 8.5	+ 4.3
Sears	2,538,074	+ 0.5	− 0.5	7,637,781	− 2.4	− 2.7
Penney	1,151,000	+ 3.8	+ 2.3	3,433,000	− 2.7	− 4.1
Dayton Hudson	1,060,000	+11.8	+ 1.6	3,290,000	+11.5	+ 0.8
May	776,700	+ 3.9	− 3.8	2,313,100	+ 6.5	− 1.8
Melville[1]	688,414	+15.3	− 3.1	2,888,225	+22.1	+ 1.2
Walgreen[1]	543,420	+ 8.4	+ 4.6	2,197,180	+11.5	N/R
Woolworth	384,000	− 8.0	−12.1	1,286,000	+ 2.4	− 2.1
The Limited	404,500	+12.0	− 5.0	1,284,000	+16.0	+ 1.0
Mercantile	169,079	+ 1.1	− 1.4	535,408	+ 5.2	+ 2.7
Circuit City[2]	178,700	+16.0	− 4.0	N/R	N/R	N/R
The Gap	157,000	+14.0	− 1.0	490,000	+22.0	+ 6.0
Rose's	110,944	N/R	− 4.8	322,613	N/R	− 2.5
Neiman-Marcus Group[3]	119,100	− 0.7	− 5.9	1,358,400	+ 5.5	− 0.3
Venture Stores	102,000	+ 4.9	+ 1.1	314,800	+ 8.8	+ 4.5
Edison Bros.	94,300	+ 8.5	N/R	299,800	+20.9	N/R
Jamesway	63,538	−11.0	− 7.0	173,942	− 7.0	− 3.0
Charming Shoppes	73,900	+10.0	+ 3.0	222,900	+16.0	+ 8.0
Ross	67,000	+16.0	N/C	199,000	+16.0	+ 1.0
Dollar General	58,700	+15.8	+11.0	147,300	+11.2	+ 6.8
Best Buy[4]	50,000	+39.0	+16.0	109,000	+25.0	N/R
Gottschalks	20,700	+18.3	+ 5.2	62,900	+19.7	+ 6.6
Claire's	17,375	− 7.0	−19.0	55,940	+ 4.0	−10.0

[1]fiscal year ends Dec. 31 [2]fiscal year ends Feb. 28 [3]fiscal year ends July 31 [4]fiscal year ends Mar. 31 N/R = not reported N/C = no change Source: Company reports

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